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SUBJECT: U.S.-CHILEAN JOINT INFRASTRUCTURE ASSISTANCE IDENTIFIES  
COSTA RICAN PROJECT

REF: SAN JOSE 497, SAN JOSE 364

11. SUMMARY. From July 13-16, a Treasury Department team from the Office of Technical Assistance (OTA) and a representative of Chile's Ministerio de Obras Publicas (GOC MOP) met with GOCR leaders and private sector officials to consider how to deliver infrastructure technical assistance (TA). Both USG and GOC advisors represented the Infrastructure Finance Expert Corps (IFEC), a joint assistance program which selected Costa Rican as a pilot project (reftel A). After successful previous trips by an OTA team and GOC representatives in late May and early June, this second engagement focused on identifying candidate projects. By the last day of the meetings, the GOCR identified the Liberia airport concession as the candidate for TA. All parties agreed that the size and scope of the project -- a USD 35 million renovation / expansion with a term of approximately 8-12 months -- worked well with the GOCR's needs, OTA's assistance horizon, and the GOC MOP expertise. Next steps include drafting, finalizing, and signing a TOR agreement between the OTA and the GOCR and for the GOC to provide funding (direct or through a multi-lateral bank) to support its participation. End Summary.

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ACT TWO: THE PLAYERS  
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12. OTA Advisors Harry Tether and Barry Gray traveled to Costa Rica for four days of meetings commencing on July 13. The GOC MOP sent John Diaz as its representative. On this second Costa Rican trip, the OTA team again met with a variety of players in Costa Rican infrastructure, including:

-- Karla Gonzalez, Minister, Guillermo Matamoros, Vice Minister of Concessions, and Eduardo Navarro, Director of Concessions, and Hernan Vasquez Director of Planning, Ministry of Public Works and Transportation (MOPT);

-- Jose Luis Araya and Jenny Phillips, Vice Ministers of Finance (Hacienda) and Melvin Quiros, Deputy Director, Public Credit, Hacienda;

-- Marco Vargas, Minister, Inter-Ministerial Coordination;

-- Carla Morales Rojas, Vice Minister, Ministry of Planning;

-- Javier Cascante, Director, Superintendency of Pensions (SUPEN);

-- Lourdes Fernandez, Interim Director of Investment Banking for Banco Nacional de Costa Rica;

-- William Hayden and Ronald Vargas, Hayden-Vargas-Fernandez Financial Consulting;

-- Carlos Andres Arguedas Vargas, Contract Division Manager,

Contraloria General (Comptroller) of the GOCR;

-- Jose Antonio Munoz, Partner, Arias and Munoz;

-- Carlos Arrea, Partner, LEX Counsel (attorney for the Liberia and Port of Caldera concessions);

-- Mariela Diaz, Director, and Cecilia Montero, Manager, ProChile; and

-- Bill Abraham, Partner, Osa Pacific Partners (holds a minority stake in the Liberia concession).

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ACT TWO HIGHLIGHTS I: DO WE HAVE A PROJECT?  
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¶3. During the initial days of meetings, the OTA team and Post became slightly puzzled by the GOCR's lack of providing specific examples or even a list of candidate projects. The most direct suggestion came from MOPT Minister Gonzalez who proposed Costa Rica's Limon-Moin port complex (on the Caribbean, reftel B) as a candidate. However, the OTA team and Post agreed that the scale (USD 700+ million), complexity, and political/labor implications of this project were completely mismatched to IFEC's more immediate goals. Other than the Minister's specific suggestion, GOCR contacts offered few specifics.

¶4. Having just met Bill Abraham, a minority partner in the Liberia airport concession, the OTA team raised this as a possibility with CNC's Vice Minister Matamoros toward the end of the week. The airport concessionaire -- led by Coriport, an airport management / development consortium -- proposes to invest approximately USD 25

million for a renovation / expansion of the Liberia airport. This includes the construction of an 180,000 square foot arrival-departure-immigration facility, estimated to take approximately 8-12 months to build. Vice Minister Matamoros responded positively to this suggestion and directed the OTA team to focus on the Liberia concession.

¶5. After meeting with Vice Minister Matamoros, the OTA team presented this result to Finance Vice Ministers Phillips and Araya who both concurred with the selection. In addition, the Vice Ministers also tapped the Office of Public Credit as Hacienda's analytical team to assist with evaluating financing options for the Liberia concession.

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ACT TWO HIGHLIGHTS II: CHALLENGES  
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¶6. A key challenge to the process emerged on the very first day when the GOC MOP John Diaz explained that the GOC did not have funds to support IFEC assistance. Though, Diaz recognized a role for Chilean participation (and certainly a strong interest), he could not make any promise about the GOC's ability to support IFEC. By the time of Diaz's departure from San Jose, we understood that the GOC would explore the possibility of securing IFEC assistance through a multi-lateral bank such as the IDB.

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ACT TWO HIGHLIGHTS III: A PPP PRIMER  
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¶7. John Diaz shared with the OTA team and us the Chilean model of managing concessions and / or public private partnerships. Within the GOC's concessions agency, three distinct functions move a concession from beginning to end. The first is Tendering. This function manages the "offering" and award of a concession. Diaz noted that concession competition (three to four bidders) is vital to the process. The second function, Construction, manages the design / build process and handles contractor disputes and change orders. The third function, Operations, monitors the actual revenue results versus projected revenue results and the distribution of revenue to stakeholders (including the GOC) in accordance with the terms crafted during the Tendering phase.

18. All three functions draw upon professional experts (e.g. legal, appraisers, etc.) that are part of the GOC's concession agency. One other function that plays a key role in the process is a Project Manager. The concession agency charges this person with total responsibility for shepherding a concession project through the tendering, construction, and operations phases of the project's life. The project manager also has a key liaison role with the "requesting" or "sponsoring" ministry. For example, if the concession is a hospital, then the Project Manager interacts with the representatives at the Ministry of Health on the key technical issues related to delivering a major health care facility.

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COMMENT  
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19. After the first OTA and GOC visits in May and June respectively, three near-term issues emerged for upcoming visits. We recount those issues below along with comment updating the status of each:

-- Collaborating with the GOCR to select specific IFEC project(s) and defining specific areas of focus for the IFEC team: the IFEC team met most of this goal on its second visit to Costa Rica with the selection of the Liberia airport concession. As the picture of GOC assistance becomes clearer, the latter part of this goal will be met.

-- Increasing the effectiveness of the Council of Concessions: this remains a long term objective of the IFEC team and will require work akin to "management consulting" in order to achieve results.

-- Publicizing concession and public-private partnership successes: the recent opening of a segment of the San Jose-Caldera concession tollway illustrates how much work remains in this area; a combination of misshaped expectations, an approximate eight-fold increase in tolls, and the lack of an awareness campaign by the concessionaire, Autopista de Sol, highlights the critical importance of public awareness and information.

What may be a fourth issue is the GOC assistance. Though the lack of GOC IFEC funding poses as a near term challenge, Chile clearly wants to actively participate in IFEC as we gathered from the travel

of John Diaz and his enthusiastic engagement in our meetings. We choose to remain optimistic that the GOC will find a way to insure continued participation with IFEC's pilot project for Costa Rica.

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